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PORTUGAL

The cabinet completed deliberations yesterday on the controversial unitary labor law, which appears to have caused divisions within the Armed Forces Movement as well as the three-party coalition. The law will now be considered by the legislative Council of State, where passage is virtually assured because two thirds of the 21 members are military.

The cabinet vote reportedly ended in a tie, which was broken by Prime Minister Goncalves, who favors a single labor confederation. The final text of the law is not yet available, but Socialist Party leader and Foreign Minister Soares told Ambassador Carlucci yesterday that considerable changes have been made in the final draft that will enable the Socialists to work freely within the labor movement despite Communist control of its superstructure. Soares' account seems to contradict earlier embassy sources indicating that the version considered by the cabinet was more restrictive than that approved by the Armed Forces Movement.

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Press coverage of the dispute has cast considerable doubt on Communist claims that the law had solid popular backing. Several unions have expressed their displeasure with the legislation, and the Communists' refusal to participate in a television debate on the issue has tarnished their image.

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Many moderates within the Movement may feel uncomfortable about the apparent alliance between themselves and the Communists on this issue. Possibly in order to mollify the moderates, the Superior Council issued a communiqué last weekend restating its determination to hold elections on schedule. The Communists have come out in favor of postponing elections and have been searching for ways to block them.

With promulgation of the law virtually assured, the Socialist leadership is planning to meet this Sunday to decide whether or not they will remain in the government. Soares is opposed to withdrawing, although he reports that there is considerable pressure within the party to do so.

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OPEC

Oil, finance, and foreign ministers of the OPEC states are scheduled to convene in Algiers tomorrow to begin preparations for a summit of OPEC chiefs of state. The conference agenda, which was fairly well outlined at the December meeting of OPEC in Vienna, will focus on developing a coordinated position on a wide range of economic issues.

--The participants will attempt to develop a common strategy for a proposed joint conference of oil-producing and oil-consuming countries.

--The exclusion of OPEC members from preferential treatment under the new US trade law is expected to draw considerable attention.

--Oil price discussions are likely to concentrate on maintaining the purchasing power of oil, principally by tying oil prices to other prices. Measures to support current prices by balancing world oil supply and demand are also likely topics.

--Financial and recycling issues will be important items for discussion. These will include guaranteeing the value of investments by OPEC members in developed countries against inflation and avoiding industrial countries' control over disposition of OPEC revenues.

The Algerians have been pushing since November for a meeting to lay the groundwork for an oil producers' summit. Judging from their past performance as a conference host, they will try to dominate the discussions. Algiers probably will attempt to promote the establishment of a new OPEC institution to recycle oil earnings directly within the Arab world and other less developed countries. They are also likely to raise the issue of establishing other commodity cartels in an attempt to gain the support of other developing countries for OPEC's oil policies.

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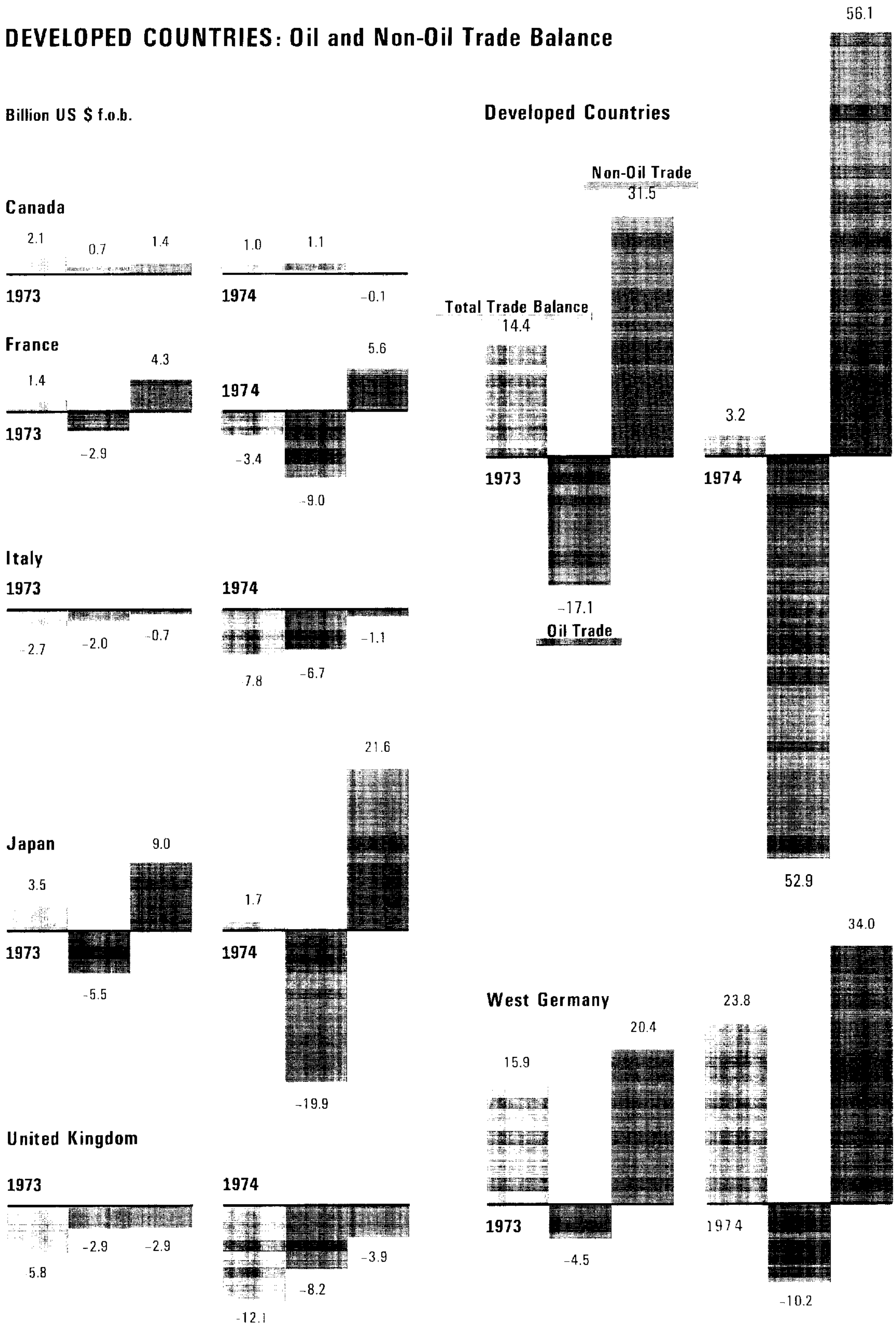
DEVELOPED COUNTRIES: Oil and Non-Oil Trade Balance



INDUSTRIAL STATES

Because of the enormous rise in oil import costs, the combined trade surplus of the six major foreign developed countries dropped last year from $14.4 billion to $3.2 billion. Their current account deficit jumped from $1.6 billion to $19.1 billion.

We estimate that these countries suffered a net rise in their oil bill of $35.8 billion in 1974. At the same time, their exports to OPEC members increased by $6.1 billion. A sharp rise in their trade surplus with other than OPEC countries was much more important in offsetting their staggering oil bill.

West Germany, uniquely among oil importers, managed to boost its surpluses on trade and current account by an estimated $7.9 billion and $5 billion, respectively. Japan did well in offsetting the huge jump in its oil bill, ending the year with a small trade surplus and a current account deficit of $4.6 billion. The UK, Italy, and France had the most difficulties. Their combined trade deficit increased from $7.1 billion in 1973 to $23.3 billion last year. Canada, itself a major oil producer, gained $1 billion less from its oil trade than it lost on its non-oil transactions.

The rise in oil payments reflects an average increase of price on delivery of about 200 percent per barrel of crude during the year. Actually, the volume of crude oil imports of the six major foreign developed countries fell by 3.3 percent.

The non-oil trade surplus of the six major foreign developed countries rose from $31.5 billion to $56.1 billion, mostly because of the striking improvement in the West German and Japanese balances. Sluggish domestic demand in both countries contributed to a rapid expansion of exports, while holding down the rise in imports. France's surplus in non-oil trade grew moderately; Italy and Britain saw their deficits mount. Canada's non-oil trade slipped from a $1.4-billion surplus in 1973 to a small deficit, mainly because of weaker demand in the US.

Non-oil exports of the six rose by $66 billion. Increased sales to OPEC markets accounted for less than 10 percent of this $66 billion. By contrast, rising exports to developing countries that produce no oil contributed 20 to 25 percent of the gain in sales.

Oil consumption in the six developed countries probably will decline moderately in 1975 because of the economic slump, consumer resistance to high prices, and conservation efforts. The expected decline in import volume probably will be more than offset by a slight rise in average oil prices. As a result, the deficit in oil trade of the six countries will rise by an estimated $4.5 billion, offsetting an expected increase of one third in the value of exports to OPEC countries.

The other developing countries will provide a far less lucrative market for sales than they did last year, because their worsening payments problems are catching up with them. Furthermore, the developed countries, in contrast to 1974, will find that interest payments on loans to pay oil bills will add substantially to their current account deficits. [redacted] 25X1

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CAMBODIA

A small but important Mekong River resupply convoy--the first since December 28--arrived in Phnom Penh last night.

The convoy, consisting of two ammunition barges, several tugs, and a large escort of navy vessels, encountered Communist shellings at several areas along the river. It was halted twice, once by mechanical problems and once when an insurgent round knocked out the engine on one tug. Resumption of progress was delayed both times by reluctance of the civilian crews to proceed.

Effective support from the air force and navy, amphibious landings at several points along the lower Mekong, and the destruction of a barricade at a vital river narrows kept the 60-mile run upriver from being more hazardous than it was.

The arrival of the convoy does little to ease the tight supply situation in Phnom Penh, but it will assuage jittery civilian shipowners and crews over the government's ability to protect their vessels. [redacted] 25X1

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SOUTH VIETNAM

Leaders of South Vietnam's Cao Dai religious sect, concerned about the effects of heavy fighting in Tay Ninh Province on their church and congregation, have appealed to the government and Viet Cong to declare the area a neutral zone. Neither side has officially responded to the request, but the development could have a significant impact on future political and military moves by both sides.

Earlier this month, Cao Dai leaders approached Prime Minister Khiem with a request to meet with Viet Cong officials assigned to the cease-fire commission in Saigon. Khiem rejected their overtures on the grounds that Viet Cong military representatives in Saigon could not make political decisions for the Communists, and suggested instead that the officials try to contact members of the Viet Cong's Central Office for South Vietnam. Initial reports suggest that the Viet Cong are at least willing to explore the Cao Dai's petition further, with an eye toward establishing a neutral zone around Tay Ninh city.

The Cao Dai's petition contains three points. They want the South Vietnamese and Viet Cong to meet in the Cao Dai church headquarters in Tay Ninh city--the Holy See--to negotiate a local truce for Tay Ninh Province. Should the two sides agree to a local truce, the Cao Dai would volunteer to arrange similar local cease-fires on a countrywide basis. If, however, the two sides cannot agree to a local truce for Tay Ninh Province, the Cao Dai hope that the two sides will agree to establishing a 26-square-mile area around the Holy See as a neutral zone.

In conjunction with these appeals, the Cao Dai also have launched an international appeal to the UN and the signatory states to the cease-fire agreement requesting support for a resumption of negotiations. This appeal also contains a request that, at a minimum, the religious complex of the Cao Dai religion in Tay Ninh city be declared neutral territory.

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Cao Dai leaders have tried to assure South Vietnamese officials that their appeal does not represent a turn to the Communists. They insist that the move is strictly a humanitarian gesture designed to save lives and protect church property.

Nonetheless, the move has placed the government in a difficult position. If Thieu agreed to such a truce, he would forfeit government control over a significant section of territory and large numbers of people. Moreover, it could establish a precedent for similar demands elsewhere in the country and jeopardize the central government's influence over other religious sects and political groups. On the other hand, heavy fighting in Tay Ninh could result in considerable death and destruction and the alienation of a large and important segment of the country's population.

The Viet Cong, however, stand to lose little by agreeing to such a truce. They would enhance their image in the eyes of the Cao Dai and increase their political access to a large number of people. Internationally, they could tout their acceptance of the agreement as a further example of the humanitarian goals of the revolution. And militarily, they would be free to concentrate their forces against other government targets closer to Saigon.

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PANAMA

The round of canal treaty negotiations that just concluded in Panama brought considerable progress on the status-of-forces agreement that would be a key part of a new treaty. The Panamanian negotiators seemed to be particularly concerned about acquiring the symbols of sovereignty, such as flying their country's flag over defense sites the US would retain under a new pact. Discussions will continue during the round of negotiations scheduled to begin in Washington on January 27.

General Torrijos' public and private statements continue to reflect his confidence that a new treaty can be drafted this year. As an indication of his good faith in the negotiations, he has lived up to his commitment to keep the details of the bargaining confidential. Within these limitations, the administration has launched a campaign to prepare the public for a treaty that will not be perfect from Panama's point of view, but will achieve many of its basic goals such as setting a specific date for the transfer to Panama of all responsibility for defense and operation of the canal.

Torrijos actually would prefer to hold off public debate until the entire draft agreement is complete, but he has begun to defend his handling of the negotiations because of criticism from ultranationalists that he is acting in secrecy and is giving away too much. These critics maintain it is a mistake to sign a new treaty now, because they believe that within a few years the pressure of world opinion will oblige the US to withdraw unilaterally from the canal area. The volume of their criticism will increase as momentum toward a new treaty builds, but the government's control of much of the media will give it an advantage in getting its views before the public.

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BOLIVIA

President Banzer has side-stepped another challenge to his authority. Although workers at two major mines have been striking for more than a week for higher wages, the agitation has not spread to other areas. Banzer's decision to abandon plans to raise fuel prices and increase export taxes has temporarily robbed his enemies of a unifying issue on which to oppose him.

In fact, the government may have won significant public support with its surprise announcement early this week that it was lowering taxes by as much as 70 percent on many imported goods, including automobiles and home appliances. Banzer reportedly hopes to expand the domestic market and increase government revenue by encouraging a buying spree.

Meanwhile, Banzer has banished former president Hernan Siles Zuazo, who had re-entered Bolivia clandestinely a few weeks ago. Although Siles Zuazo and several leftist co-conspirators were arrested for plotting against the government, the scheme had not gotten off the ground.

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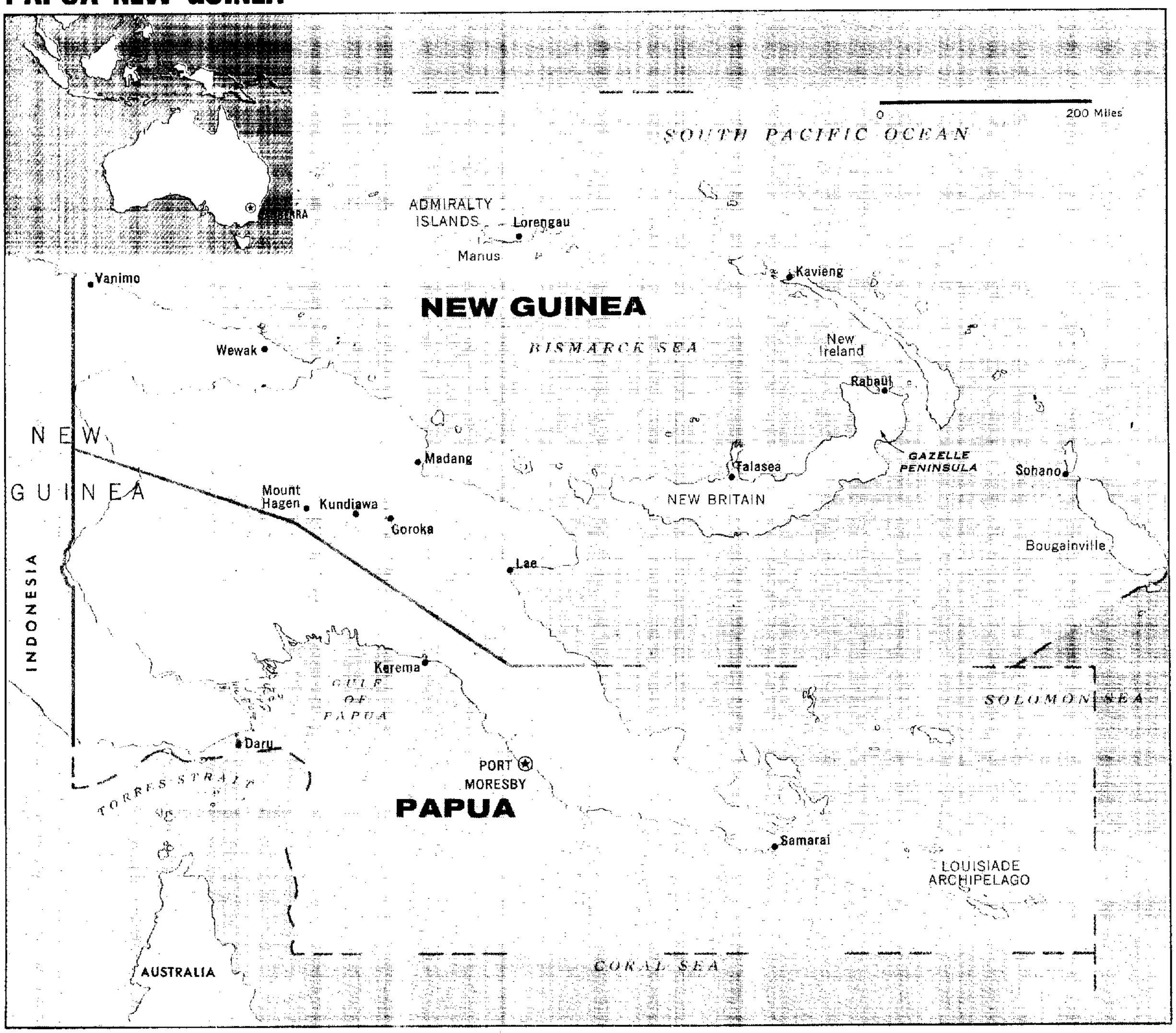
PAPUA NEW GUINEA



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PAPUA NEW GUINEA

Another flare-up of Papuan separatism could further delay Papua New Guinea's already halting course toward independence.

Last week a former high-level government official, suspended last October for pushing Papuan separatism, organized the take-over of an Australian-owned plantation in his home district. He warned that government interference would push him into declaring the area an independent republic. The territorial government, reluctant to undertake military action in the remote district, will probably try to deal with the situation by buying the plantation and selling it to the rebels at a fraction of its real value.

The government issued a sharp warning, however, to other Papuan separatists who over the weekend reportedly agreed on a declaration of Papuan independence. Chief Minister Somare probably gambled that the separatists--under the nominal leadership of Josephine Abaijah, the only woman member of the territorial assembly--were not strongly united and would back off in the face of a firm government response.

The 700,000 Papuans have long argued that they would be swamped in a union with the 1,800,000 New Guineans. Mutual antagonism between Papuans and New Guineans has led to occasional outbreaks of communal fighting in Port Moresby, the capital city. Even within each group, rivalry between clans--which for the whole territory number more than 700--has been a divisive factor.

Even if Somare can ride out the current wave of Papuan separatism, the need to cater to regional demands will continue to impair development of a strong central government. Last summer the territorial government felt compelled to grant provincial status to the copper-rich island of Bougainville. This step, plus an agreement last month that allows Bougainville to keep its copper revenues, has probably encouraged the Papuans--even though they lack comparable local sources of revenue--to pursue their own aims.

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Australia is anxious to divest itself of one of the two remaining UN trust territories (the other is the US-administered Trust Territory of the Pacific Islands). Canberra probably does not regard the disagreements within Papua New Guinea as serious enough to oblige it to prolong its stewardship for any extended period.

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